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CANADA MALTING CO.
LIMITED



ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 1977

CANADA MALTING CO., LIMITED

Board of Directors

NIGEL B. BAIRD

STANTON J. BURKETT

HARRY F. GRAESSER

JAMES C. GRANT

W. DOUGLAS HATCH

LEONARD G. LUMBERS

ROBERT J. D. MARTIN

WALLACE F. READ

GEORGE H. SELLERS

REGINALD J. THOMAS

Honorary Director

GORDON McMILLAN, Q.C.

Officers

HARRY F. GRAESSER	CHAIRMAN AND CHIEF EXECUTIVE OFFICER
REGINALD J. THOMAS	PRESIDENT
JAMES C. GRANT	VICE-PRESIDENT AND GENERAL MANAGER
CHARLES T. CLEGG	SECRETARY
GORDON J. CATER	TREASURER
DONALD W. McOUAT	ASSISTANT GENERAL MANAGER

Head Office

TORONTO - ONTARIO

Malthouses and Elevators

MONTREAL, QUEBEC	- -	WINNIPEG, MANITOBA
TORONTO, ONTARIO	- -	CALGARY, ALBERTA
THUNDER BAY, ONTARIO		

Transfer Agent

CANADA PERMANENT TRUST COMPANY
TORONTO, ONTARIO - - MONTREAL, QUEBEC
CALGARY, ALBERTA

Registrar

MONTREAL TRUST COMPANY
TORONTO, ONTARIO - - MONTREAL, QUEBEC
CALGARY, ALBERTA

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS FOR THE FISCAL YEAR ENDED DECEMBER 31, 1977

Consolidated net earnings amounted to \$3,656,027 or \$4.22 per common share. Comparable figures for the preceding year, excluding extraordinary items, were \$2,023,500 and \$2.34 respectively.

These results include the benefits of the 3% inventory allowance recently enacted by the Federal Government.

Malt shipments during 1977 established a record high for the Company showing an increase in volume of 18.5% over last year. The higher shipments were almost entirely due to export sales and as a result, we were able to make better use of plant and equipment, a major factor in the improved earnings.

Leaver Mushrooms Co. Limited continued to make a substantial contribution to the consolidated earnings of the Company for the year 1977.

Total capital expenditures of \$3,040,305 include an addition to our mushroom growing facilities at a cost of \$1.2 million which is now in operation and \$582,000 to cover expenditures necessary to meet various government regulations affecting environmental controls at our malting plant locations. It is estimated that an additional expenditure of \$1.6 million will be required over the next four years to ensure that our Company complies with these regulations.

The Company is currently subject to the Canada Corporations Act and to conform with legislation recently passed by Parliament, must apply for Articles of Continuance under the new Canada Business Act prior to December 15, 1980. New by-laws and Articles of Continuance have been approved by your Board of Directors and copies have been forwarded to each shareholder for their approval at the Annual Meeting.

In order to comply with Quebec's Language Bill 101 and co-incident with the change in by-laws, it is proposed to francisize the Company's name for use in that province to Canada Maltage Cie Limitée.

With regret the Board accepted the resignations of Mr. R.J.D. Martin and Mr. S.J. Burkett whose contributions over the past years are gratefully acknowledged. Management is recommending to the shareholders that Mr. J.P.G. Kemp and Mr. D.W. Elliott fill these vacancies.

It is with pleasure that your Directors record their appreciation of the loyal and efficient support rendered by the staff and employees throughout the year.

On behalf of the Directors,

HARRY F. GRAESSER
Chairman and Chief
Executive Officer.

REGINALD J. THOMAS,
President.

CANADA MALTING CO., LIMITED

and subsidiary company

CONSOLIDATED STATEMENT OF EARNINGS

	<u>Year ended December 31</u>	
	<u>1977</u>	<u>1976</u>
Net sales	\$ 117,194,455	\$ 106,666,554
Costs and expenses:		
Cost of products sold and all expenses except items shown below	107,443,812	98,460,055
Interest on long-term debt.	52,000	60,000
Bank and other interest (Note 3)	1,416,746	1,619,478
Property rentals	583,958	669,180
Provision for depreciation	2,154,912	2,106,341
Provision for income taxes	1,887,000	1,728,000
	<u>113,538,428</u>	<u>104,643,054</u>
Earnings from operations before extraordinary items	3,656,027	2,023,500
Gain on sale of investment in Hugh Baird & Sons Limited	—	841,152
Gain on expropriation of property, less estimated income taxes of \$900,000	—	3,618,124
Net earnings for the year.	<u>\$ 3,656,027</u>	<u>\$ 6,482,776</u>
Net earnings per share:		
Before extraordinary items	\$4.22	\$2.34
Extraordinary items.	—	5.16
	<u>\$4.22</u>	<u>\$7.50</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	<u>Year ended December 31</u>	
	<u>1977</u>	<u>1976</u>
Balance at beginning of year	\$ 29,750,975	\$ 22,072,181
Net earnings for the year.	3,656,027	6,482,776
Transfer from excess of appraised value of fixed assets over depreciated book value on February 28, 1955, of amount realized on property expropriated.	—	2,406,238
	<u>33,407,002</u>	<u>30,961,195</u>
Deduct:		
Dividends on common shares:		
Class A shares (\$1.45 per share)	1,078,866	1,049,001
Class B shares (\$1.34½ per share)	162,856	137,027
Tax paid on undistributed income	12,360	24,192
	<u>1,254,082</u>	<u>1,210,220</u>
Balance at end of year	<u>\$ 32,152,920</u>	<u>\$ 29,750,975</u>

ASSETS

	December 31	
	<u>1977</u>	<u>1976</u>
CURRENT ASSETS:		
Cash	\$ 36,202	\$ 184,094
Accounts receivable	11,882,306	9,680,469
Income taxes recoverable	172,809	—
Inventories—		
Barley and malt.	32,787,256	39,006,380
Operating supplies	521,034	521,604
Prepaid rent and other expenses	806,671	796,542
	<u>46,206,278</u>	<u>50,189,089</u>
OTHER ASSETS:		
Prepaid rent (Note 2)	918,181	1,419,007
Commodity Exchange Seats and Membership in Clearing		
Association, less amounts written off	<u>1</u>	<u>1</u>
	<u>918,182</u>	<u>1,419,008</u>
FIXED ASSETS:		
Buildings, plant and equipment	52,434,584	49,452,951
Less: Accumulated depreciation	<u>25,490,958</u>	<u>23,405,218</u>
	26,943,626	26,047,733
Land	<u>1,753,344</u>	<u>1,763,844</u>
	<u>28,696,970</u>	<u>27,811,577</u>
Approved by the Board:		
HARRY F. GRAESSER, <i>Director</i>	<u>\$75,821,430</u>	<u>\$79,419,674</u>
REGINALD J. THOMAS, <i>Director</i>		

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31	
	1977	1976
CURRENT LIABILITIES:		
Bank advances and bankers' acceptances (Note 4)	\$ 15,259,004	\$ 20,841,901
Accounts payable and accrued liabilities	6,471,534	5,940,521
Long term debt payable within one year	100,000	100,000
Taxes on income	—	1,053,409
	<u>21,830,538</u>	<u>27,935,831</u>
LONG TERM DEBT OF SUBSIDIARY:		
8% first mortgage debentures payable \$100,000 annually 1979 to 1983.	500,000	600,000
DEFERRED INCOME TAXES	3,738,000	3,598,400
SHAREHOLDERS' EQUITY:		
Capital stock—		
Authorized—		
Preferred shares of a par value of \$1 each,		
issuable in series	7,761,206 shares	
Common shares without nominal or par value		
Class A	2,000,000 shares	
Class B	1,500,000 shares	
Issued and outstanding—		
Common shares (Note 5)		
Class A	744,556 shares	
Class B	122,827 shares	
	867,383 shares	
Retained earnings (Note 6)	5,177,534	5,112,030
	<u>32,152,920</u>	<u>29,750,975</u>
	37,330,454	34,863,005
Excess of appraised value of fixed assets over depreciated book value on		
February 28, 1955.	12,422,438	12,422,438
	<u>49,752,892</u>	<u>47,285,443</u>
	<u>\$75,821,430</u>	<u>\$79,419,674</u>

CANADA MALTING CO., LIMITED

and subsidiary company

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31	
	1977	1976
SOURCE OF WORKING CAPITAL:		
Earnings before extraordinary items	\$ 3,656,027	\$ 2,023,500
Non-cash charges deducted in arriving at earnings—		
Provision for depreciation	2,154,912	2,106,341
Deferred income taxes	139,600	54,000
Amortization of prepaid rent	500,826	584,297
Funds provided from operations	6,451,365	4,768,138
Shares issued under employees' stock option plan	65,504	—
Proceeds on sale of investment in Hugh Baird & Sons Limited	—	3,340,636
Additional compensation for expropriated property after adjustments for estimated income taxes and prepaid rent classified as a current asset	—	943,978
	<u>6,516,869</u>	<u>9,052,752</u>
USE OF WORKING CAPITAL:		
Additions to fixed assets	3,040,305	1,212,026
Dividends on common shares	1,241,722	1,186,028
Tax paid on undistributed income	12,360	24,192
Reduction of long-term debt	100,000	100,000
	<u>4,394,387</u>	<u>2,522,246</u>
Resulting in an increase in working capital of	2,122,482	6,530,506
Working capital at beginning of year	<u>22,253,258</u>	<u>15,722,752</u>
Working capital at end of year	<u>\$24,375,740</u>	<u>\$22,253,258</u>

TEN YEAR EARNINGS

	Net Earnings	Earnings per Common Share
1977	\$3,656,027	4.22
1976	2,023,500	2.34†
1975	2,601,939	3.01
1974	4,157,741	4.81
1973	3,279,485	3.60*†
1972	2,835,768	3.13*
1971	2,630,422	2.89*
1970	2,107,042	2.28*
1969	2,082,970	2.25*
1968	1,415,065	1.50*

*After providing for dividends on preferred shares.

†Excluding extraordinary item.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1977

1. SUMMARY OF ACCOUNTING POLICIES:

(a) Principles of consolidation —

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Leaver Mushrooms Co. Limited.

(b) Inventories —

Barley and malt are valued at the lower of cost on a first-in, first-out basis and net realizable value. Operating supplies are valued at cost or less.

(c) Fixed assets —

Land, buildings, plant and equipment are stated at 1955 appraised values plus subsequent additions at cost. Depreciation provisions are computed by the straight-line method at rates based on the estimated useful lives of the depreciable assets, principally as follows:

Buildings	2.5% per annum
Machinery and equipment	7.5% - 10.0% per annum
Automotive equipment	15.0% - 25.0% per annum

(d) Income taxes —

Deferred income taxes are provided for all significant timing differences in reporting costs and expenses for financial statement and tax purposes.

In calculating income taxes for 1977, the Company has taken advantage of the 3% inventory allowance.

(e) Pensions —

Current service costs are charged to operations as they accrue. Unfunded past service costs, amounting to approximately \$1,995,000 at December 31, 1977 (1976 - \$2,147,000) are being amortized by annual payments through to 1989.

(f) Foreign currency transactions —

The Company's principal transactions involving foreign currencies are export sales. This revenue is translated into Canadian dollars at rates applicable to related forward exchange contracts.

Current assets and current liabilities to be settled in foreign currencies are translated into Canadian dollars at rates applicable to related forward exchange contracts, or at exchange rates prevailing at the balance sheet date.

2. LEASED PROPERTY:

Under the terms of the lease taken back on the Toronto Bathurst Street property, expropriated in 1973, the Company has leased the property to November 30, 1987 with the right to terminate the lease with one year's notice, provided that such termination cannot be effective before October 31, 1980. The Company may also with one year's notice, to take effect at any time after October 31, 1980, require the Lessor to take possession of any part of the leased property with an appropriate adjustment of the rent. The Lessor has the right to terminate the lease with four years' notice provided that such termination cannot be effective before October 31, 1985.

Part of the compensation received for the expropriated property was prepaid rent due under the lease to October 31, 1980; at December 31, 1977, prepaid rent for the period January 1, 1979 to October 31, 1980 amounted to \$918,181. The annual rent for the balance of the lease period, November 1, 1980 to November 30, 1987, is \$613,652, payable on a quarterly basis.

3. BANK AND OTHER INTEREST:

Bank and other interest in 1976 is net of interest received of \$538,962 on the compensation for the expropriated property.

4. BANK ADVANCES AND BANKERS' ACCEPTANCES:

Bank advances and bankers' acceptances are secured by a general assignment of accounts receivable and a pledge of inventories under Section 88 of the Bank Act.

5. COMMON SHARES:

The Employee Stock Option Plan, ratified by shareholders at the Annual Meeting on April 24, 1975, authorized the granting of options on 20,000 Class A common shares at prices not less than 90% of the market price on the day immediately preceding the date of grant. Of these, 17,000 had been granted to December 31, 1977. The options are exercisable in instalments during a period of not more than five years from date of grant. During the year ended December 31, 1977 no further options were granted, existing options on 2,940 shares were exercised for a cash consideration of \$65,504, and existing options on 2,640 shares lapsed on retirement of employees. At December 31, 1977 options to purchase 10,865 shares at \$22.28 per share were outstanding including options for 3,325 shares held by six officers, three of whom are directors.

The Class A and Class B shares are inter-convertible on a share-for-share basis and the rights of each class are identical. Both classes of shares rank equally as to dividends but the Directors may elect to declare and pay a dividend on the Class B shares out of tax-paid undistributed surplus on hand, or out of 1971 capital surplus on hand, provided that a cash dividend is declared and paid on the Class A shares in an amount equal to the sum of the cash dividend on the Class B shares plus the tax paid to create the tax-paid undistributed surplus. Changes in the share capital of the Company during the year were as follows:

	<u>Class A</u>	<u>Class B</u>
Shares issued and outstanding at beginning of year.	747,725	116,718
Class A shares issued on exercise of options.	2,940	—
Class A shares converted into Class B (net)	(6,109)	6,109
Shares issued and outstanding at end of year.	<u>744,556</u>	<u>122,827</u>

6. RETAINED EARNINGS:

Retained earnings at December 31, 1977 include \$2,080,646 designated as capital surplus under Section 62 of the Canada Corporations Act, arising from the redemption and cancellation of 1,727,776 Series A preferred shares in 1969 and the purchase and the cancellation of 352,870 Series B preferred shares during 1970 and prior years.

7. REMUNERATION OF DIRECTORS AND OFFICERS:

The remuneration of ten directors (1976 — ten directors and one past director) amounted to \$23,000 (1976 - \$23,000) and the remuneration of six officers and one past officer amounted to \$278,697 (1976 - six officers amounted to \$262,896). Three officers (1976 — four) are also directors of the Company.

8. ANTI-INFLATION PROGRAM:

The Company and its subsidiary are subject to controls on prices, profits, compensation and dividends instituted by the Federal Government in the Anti-Inflation Act effective October 14, 1975. The Company believes it has complied with the requirements of the Act.

AUDITORS' REPORT

To the Shareholders of
Canada Malting Co., Limited:

We have examined the consolidated balance sheet of Canada Malting Co., Limited as at December 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1977 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
February 24, 1978

PRICE WATERHOUSE & CO.
Chartered Accountants



Canada Malting Co., Limited purchases 550,000 tonnes of barley annually. This is used for the production of malt for the domestic trade and for exports of malt to various countries throughout the world.

Above: Barley ready for harvesting.

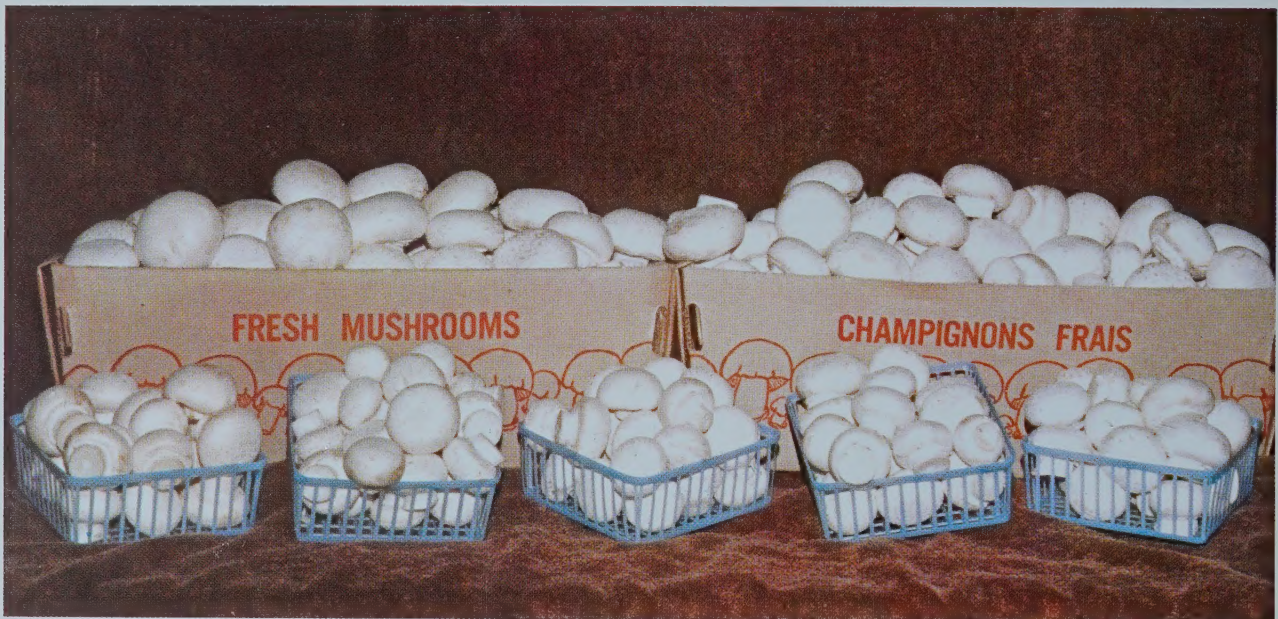
Right: Field of barley being combined.

Below: Typical barley test plot.



LEAVER MUSHROOMS

Fresh Packed in Canada



Canned . . .

- Whole
- Sliced
- Creamed
- Pieces and Stems

